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Solid Wood Products

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Report Highlights:

Post estimates softwood log production fell nearly nine percent in 2000/01 due to a downturn in the construction industry following the introduction of a ten percent Goods and Services Tax. Post forecasts both softwood log production and sawnwood consumption to increase six percent in 2001/02.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Canberra [AS1], AS

Executive Summary	1
Production	2
Forest Area	2
Forest Outlook	4
Consumption	4
Trade	5
Factors affecting US trade	7
Policy	7
Taxation	7
Environment	8
Quarantine	8
Marketing and Building Standards	9
Market Segment Analysis	9
Construction	9
Furniture and Interiors Sector	10
Material Handling Industry	10
Other Marketing Opportunities	11
Tariffs	11

Executive Summary

Plantation area on September 30, 1999 was an estimated 1,337,280 hectares, comprising of 948,260 hectares of softwood and 389,030 hectares of hardwoods. Since 1996, area in plantations has increased by about 294,000 hectares with a record 95,000 hectares established in 1999. This figure is up significantly from the 48,800 Ha established in 1996, and has been growing steadily.

Plantations represent less than 1 percent of Australia's forests yet supplied around 55 percent of the wood used by domestic wood processors in 2000/01. Overall, of the volume of logs processed in Australia, about 56 percent of roundwood removals were sourced from plantations.

Softwood log production was up 14 percent in 1999/2000 after a decline in the previous year. Production rebounded in 1999/2000 as housing starts remained strong before the introduction of the GST. Processing softwood logs have increasingly been sourced from the rapidly increasing softwood plantations. Declining availability and increased prices of hardwood timber has improved interest in increasing plantings of Australian native hardwood species.

Australia's apparent consumption of sawnwood increased by 12 percent in 1999/2000 to an estimated 4.9 million cubic meters. Coniferous sawnwood consumption was up 13 percent to 3.4 million cubic meters, and hardwood consumption was up five percent to 1.42 million cubic meters. This increase was driven by an increase in building activity prior to the introduction of the GST on July 1, 2000. However, consumption of sawnwood fell 12 percent in 2000/2001 to 4.3 million cubic meters, slightly under the figure achieved for 1998/99. Post forecasts consumption of softwood lumber to increase six percent in 2001/02.

Apparent consumption of wood-based panels was up 16 percent in 1999/2000 reaching 1.7 million cubic meters. However it subsequently fell 11.6 percent in 2000/01 to 1.5 million cubic meters, slightly higher than the level achieved in 1998/99.

While growth remained strong across most sectors of the economy, the housing and construction industry suffered a substantial downturn in the latter half of 2000. The first half of 2000 saw an escalation in housing and construction activity as buyers sought to beat the July 2000 introduction of the 10 percent Goods and Services Tax (GST). With the new tax in effect for 2000/01, building approvals fell by around 37 percent below their pre-GST peak. According to official ABS statistics, building commencements have remained low during the first three quarters of 2000/2001 despite government initiatives to increase homebuilding activity. While official figures for the fourth quarter are not yet available, sources indicate a significant improvement in building commencement is to be expected.

Post anticipates a significant improvement in construction activity for 2001/2002 due to lower interest rates and improved confidence as the home construction market adjusts to the new tax system. However, this increase will be constrained by slower economic growth and a higher degree of economic uncertainty. Post anticipates construction activity for 2001/02 to be similar to (but slightly below) the activity experienced in 1999/2000 prior to the introduction of the GST.

Production

PSD Table						
Country	Australia					
Commodity	Softwood Logs				1000 CUBIC METERS	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Production	10812	12475	11122	11400	0	12060
Imports	1	1	1	1	0	1
TOTAL SUPPLY	10813	12476	11123	11401	0	12061
Exports	750	988	750	900	0	900
Domestic Consumption	10063	11488	10373	10501	0	11161
TOTAL DISTRIBUTION	10813	12476	11123	11401	0	12061

PSD Table						
Country	Australia					
Commodity	Softwood Lumber				1000 CUBIC METERS	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Production	2555	2637	2785	2458	0	2600
Imports	740	846	740	513	0	550
TOTAL SUPPLY	3295	3483	3525	2971	0	3150
Exports	55	45	55	51	0	50
Domestic Consumption	3240	3438	3470	2920	0	3100
TOTAL DISTRIBUTION	3295	3483	3525	2971	0	3150

Forest Area

Australia has a total forest and woodland area of 156 million hectares, made up of around 44 million hectares of native forest, 112 million hectares of woodland, and around 1.3 million hectares of plantations. An estimated 13.4 million hectares of native forest are classified multiple use and are available for timber production. Approximately 27 percent of forest land is privately owned with the remaining 73 percent in the public domain.

Plantation area on September 30, 1999 was an estimated 1,337,280 hectares, comprising of 948,260 hectares of softwood and 389,030 hectares of hardwoods. Since 1996, area in plantations has increased by about 294,000 hectares with a record 95,000 hectares established in 1999. This figure is up significantly from the 48,800 ha established in 1996, and has been growing steadily.

Hardwoods are mainly native eucalypts with radiata pine being the most common softwood.

STATE	CURRENT PLANTATIONS On September 30, 1999 (‘000 ha)		NEW PLANTATIONS ESTABLISHED On September 30, 1999 (‘000 ha)	
	Softwood	Hardwood	Softwood	Hardwood
NSW	246.93	44.45	2.68	4.38
Victoria	219.20	65.38	0.84	25.33
Queensland	185.56	11.18	0.11	2.51
Western Australia	94.50	152.80	3.70	27.50
South Australia	106.15	12.23	0.48	8.00
Tasmania	75.41	101.84	2.37	16.47
Northern Territory	5.24	0.95	0.00	0.45
Australian Capital Territory	15.27	0.19	0.00	0.00
Total	948.26	389.03	10.18	84.64

SOURCE: ABARE - Australian Forest and Wood Products Statistics, October 2001.

As of June 30, 1997, around 70 percent of forest plantations were publically owned. The high degree of public ownership reflects active government involvement in plantation development over the past thirty years. This involvement included subsidized loans and grants through the Softwood Forestry Agreement Acts, the National Afforestation Program, direct investment by state forest agencies, tax incentives and environmental programs.

Plantations represent less than 1 percent of Australia’s forests yet supplied around 55 percent of the wood used by domestic wood processors in 2000/01. Overall, of the volume of logs processed in Australia, about 56 percent of roundwood removals were sourced from plantations.

The GOA seeks to increase the proportion of log sources from plantations over the next 20 years. The 2020 forest vision plan (*Plantations for Australia: The 2020 Vision*) was released in October 1997 and aims to increase the proportion of logs sourced from plantations from the current level of 55 percent to around 80 percent by year 2020. See policy section for more details.

Forest Outlook

Australian forest industries have a number of issues concerning future growth and development. The primary issue is the development of internationally competitive forest industries while at the same time protecting the environment. The Government of Australia (GOA) introduced the Regional Forest Agreements (RFA) Bill into Parliament on June 30, 1998. The Bill is an attempt by the GOA and the states to cooperate and coordinate forest development. It virtually assures that the Commonwealth government will not intervene or override state forest management and wood supply arrangements provided that the states meet commitments under the RFA.

Prior to the introduction of RFA's, the GOA's main instrument for sustainability was via the issuing of export licenses. However this was deemed a crude and ineffective way of managing environment issues and was also seen as distorting regional development.

A recent ABARE study identified an additional million hectares of cleared farmland where timber production promised to be more profitable than current farming. Most new plantations are likely to be developed on cleared agricultural land.

Softwood log production was up 14 percent in 1999/2000 after a decline in the previous year. Production rebounded in 1999/2000 as housing starts remained strong before the introduction of the GST. Processing softwood logs have increasingly been sourced from the rapidly increasing softwood plantations. Declining availability and increased prices of hardwood timber has improved interest in increasing plantings of Australian native hardwood species.

Consumption

Australia's apparent consumption of sawnwood increased by 12 percent in 1999/2000 to an estimated 4.9 million cubic meters. Coniferous sawnwood consumption was up 13 percent to 3.4 million cubic meters, and hardwood consumption was up five percent to 1.42 million cubic meters. This increase was driven by an increase in building activity prior to the introduction of the GST on July 1, 2000. However, consumption of sawnwood fell 12 percent in 2000/2001 to 4.3 million cubic meters, slightly under the figure achieved for 1998/99. Post forecasts consumption of softwood lumber to increase six percent in 2001/02.

Apparent consumption of wood-based panels was up 16 percent in 1999/2000 reaching 1.7 million cubic meters. It subsequently fell 11.6 percent in 2000/01 to 1.5 million cubic meters, slightly higher than the level achieved in 1998/99.

Paper and paper board consumption increased by 7 percent in 1999/2000 to 1,547 TMT. However as these products are not closely associated with the building industry, fell only slightly to 1,512 TMT in 2000/2001. According to Government sources this industry is closely related to the food retail sector which has been growing steadily for the past decade. Post anticipates that while consumption of these products may fluctuate slightly they will continue to grow steadily for the foreseeable future.

Trade

Import Trade Matrix			
Country	Australia		
Commodity	Softwood Lumber		
Time period	Jan - Dec	Units:	'000m3
Imports for:	1999		2000
U.S.	41	U.S.	31
Others		Others	
New Zealand	371	New Zealand	466
Canada	190	Canada	234
Finland	10	Czech Republic	35
Sweden	6	Finland	34
Fiji	1	Austria	13
Czech Republic	1	Germany	7
Papua New Guinea	1	Sweden	5
Malaysia	1	South Africa	4
Austria	1	Estonia	3
Russia	1	Chile	2
Total for Others	583		803
Others not Listed	2		11
Grand Total	626		845

Source: ABS

Note: Post uses ABARE figures for PS&D tables for improved accuracy.

Export Trade Matrix			
Country	Australia		
Commodity	Softwood Lumber		
Time period	Jan - Dec	Units:	'000m3
Exports for:	1999		2000
U.S.	1	U.S.	2
Others		Others	
The Philippines	2	Japan	230
Bangladesh	2	China	24
China	1	Malaysia	20
Taiwan	1	Nauru	15
		The Philippines	6
		Vietnam	4
		New Zealand	2
		Indonesia	1
		Taiwan	1
		Bangladesh	1
Total for Others	6		304
Others not Listed	3		4
Grand Total	10		310

Source: ABS

Note: Post uses ABARE figures for PS&D tables for improved accuracy.

Factors affecting US trade

Over the period from 1990 to 1999 softwood imports as a percentage of total consumption has decreased from 31 percent to around 27 percent. For hardwood, imports are less than ten percent of domestic hardwood consumption. The increased domestic share has been largely at the expense of Douglas Fir. The decrease in Douglas Fir imports is reported to have occurred due to supply constraints and higher prices in the US. Government sources indicate that any increase in sawnwood production is not likely to result in increased exports and is more likely to displace imports.

The Australian Quarantine Inspection Service (AQIS) has initiated an import risk analysis on timber from North America. See policy section for more details.

Policy

Forestry is subject to a range of regulations administered by federal, state and local governments. Land and forest management is primarily the responsibility of the state and territory governments. Each state has a forest authority responsible for the management and control of publically-owned forests, in accordance with the Forestry Acts and Regulations of the state or territory concerned. State governments still own, manage and market a significant proportion of the plantation resource in Australia, as well as the bulk of the native timber supply. The active promotion of plantation forestry is a government priority as it attempts to reduce the large trade deficit in forest products.

Taxation

The Government of Australia implemented a new tax system on July 1, 2000. This system replaced a range of taxes, most importantly the wholesale sales tax (WST), with a single Goods and Services Tax (GST) of 10% applied to all goods and services with some exemptions.

The purchase of a new home was previously untaxed at a federal level. However, with the introduction of the GST houses purchased now attract a tax of 10 percent. Building materials previously attracted a wholesale sales tax which was replaced by the GST, however prior to July 1, 2000, the house itself did not attract any federal tax. To compensate for this, the federal government initiated a scheme which aimed to lower the impact of the new tax on first home buyers. This scheme provided a grant of A\$7,000 for people purchasing their first home.

Prior to the introduction of the GST on July 1, 2000, private building commencements averaged around 28,000 per quarter. Despite the introduction of the first home buyers grant, building commencements fell to around 18,000 in the first quarter after the introduction of the GST and remained at this level for the first three quarters of 2000/2001.

In response to the fall in building commencements the GOA improved the scheme by offering to increase the grant to A\$14,000 for anyone who purchased a new home or built a new home, effective from March 2001. People purchasing a first home which is not new will continue to receive only the A\$7,000 grant. Post does not yet have figures showing an increase in building commencements, but according to media reports building activity has increased since the introduction of the latest scheme.

In a separate initiative, the GOA has reinstated a significant tax concession that was abolished in November 1999 which will allow investors in plantation timber to claim tax deductions up to a year in advance of the related expenditure. Investors will now effectively be able to invest in a plantation investor scheme and claim tax deductions based on budgeted agronomic expenditure for the following year. The most significant difference between this new scheme and the previous scheme is that this scheme does not allow for deductions of non agronomic expenses such as management fees. According to government sources this taxation initiative has been developed to compliment the GOA's vision to increase the total plantation timber area to 3 million hectares by 2020.

Environment

In October 1997 the Commonwealth Government, in conjunction with State governments and the forest industry, launched *Plantations for Australia: The 2020 Vision*. The goal of this program is to triple the area in plantations by 2020. The program aims to remove institutional or market based factors which inhibit plantation development. Achieving the objective of the program would require planting of around 80,000 hectares per year. New plantings are estimated at 95,000 hectares in 1999, encouraged by a surge of interest in tax-linked blue gum projects.

The Regional Forest Agreement (RFA) is a consultative process whereby the Commonwealth Government and the State governments agree on the long term management and use of forests in particular forest regions for up to 20 years. A key objective in each RFA is to establish a comprehensive, adequate and representative conservation reserve system that meets or exceeds criteria for preserving forest bio-diversity. A second key objective is to provide forest related industries with security of access to specified native forest areas for the duration of the agreement to facilitate investment in these industries. The third objective is to provide ecologically sustainable management of the forest estate.

The first of the RFA's was struck in Tasmania and is now approaching the agreed five year review process. While there are land classification issues to be resolved, government sources do not anticipate that changes emanating from this process will have any significant impact on production.

Quarantine

The Australian Quarantine and Inspection Service (AQIS) has started an Import Risk Assessment (IRA) on imports of coniferous sawn timber and logs from North America as well as wood packing materials from Asia. AQIS has determined that the IRA will be the non-routine process based on the consideration that the analysis is expected to be large and technically complex. As part of this process, AQIS has released an issues paper for comment. This paper includes such aspects of the IRA as: expected scope of the analysis; the main pest and disease risk issues; a prospective timetable; and other matters to be considered. AQIS is now in the process of forming a technical committee to conduct the IRA.

A recent USDA delegation visited Australia as part of the "Pest Risk Assessment of the importation into the United States of unprocessed Eucalyptus Logs and Chips from Australia." The delegation visited major Eucalyptus producing regions as part of assessing Australia's pest risk. A draft report is expected to be completed by the end of 2001.

Marketing and Building Standards

The change to the Australian building code that enabled three story Multi-Residential Timber Frame Construction (MRTFC), and construction of the first three storey residential project at Lutwyche in Brisbane in 1995 was an important development for the timber industry.

While there is only minimal three storey timber-framed MRTFC construction in Australia, there has been a significant increase in the use of the technology, in single and two level multiple occupancy apartments requiring sound insulation and fire separation between units.

Market Segment Analysis

Australians consume 20 million cubic meters annually of forest products, of which about 7.3 million cubic meters are imported.

Construction

The Australian economy has recorded growth averaging above 4 percent p.a. since 1997, however according to ABARE, is estimated to have slowed to just 2.5 percent in 2001. ABARE forecasts that economic growth will increase to around 3.5 percent in 2002. Furthermore, on October 4, 2001, the Reserve Bank of Australia issued another interest rate cut which improves the outlook for economic growth.

While growth remained strong across most sectors of the economy, the housing and construction industry suffered a substantial downturn in the latter half of 2000. The first half of 2000 saw an escalation in housing and construction activity, as buyers sought to beat the July 2000 introduction of the 10 percent Goods and Services Tax (GST). With the new tax in effect for 2000/01, building approvals fell by around 37 percent below their pre-GST peak. According to official ABS statistics, building commencements have remained low during the first three quarters of 2000/2001 despite government initiatives to increase homebuilding activity. While official figures for the fourth quarter are not yet available, sources indicate a significant improvement in building commencement is to be expected.

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INTEREST RATES: HOUSING LOANS BANKS	
1995/96	9.75
1996/97	7.2
1997/98	6.7
1998/99	6.5
1999/2000	7.8
2000/01	6.8

Rate as of June 30

Source: Reserve Bank of Australia

Furniture and Interiors Sector

Furniture manufacturing is small in volume and tends to be concentrated in niche markets, e.g., Tasmanian blackwood. Many manufacturers have moved overseas in order to reduce production costs. Some products are imported “knocked down” and assembled in Australia. There is some opportunity to expand this market. While price competitiveness continues to be an important factor, niche markets do exist for more expensive imported product.

The price index for joinery products increased from 119.6 in 1998/99 to 122.2 in 1999/2000. Aggregate output of the wooden structural fittings and joinery increased to A\$2,512 million from the A\$2,184 million produced in 1997/98.

Material Handling Industry

A major user of packaging and industrial paper is the manufacturing sector, in particular the food and beverages sector. Exports of manufactured goods and primary produce such as fresh fruit, vegetables and flowers are also intensive users of packaging paper.

The overall output of the wood and wood products industry in 1998/99 was A\$5,852 million. The output of wooden structural fittings increased 15 percent to A\$2, 512 million in 1997/98.

Only minor amounts of packaging timber are imported.

Other Marketing Opportunities

Imports of coopers products and staves etc. have increased rapidly in the past few years, in line with the tremendous growth in the Australian wine industry. Imports rose from A\$26.5 million in 1996/1997 to A\$68.5 million in 2000/01. The US and France are the big suppliers of this material. Imports of assembled parquet flooring panels increased from A\$6.3 million to A\$20 million over the same period of time.

Tariffs

The general tariff on sawn timber (4407.10.10) is five percent, four percent for Canada and four percent for countries with developing country status.

There is no import tariff on softwood logs.